

**AR08**

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Head office: 100 Ronson Drive, Rexdale, Ontario

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Directors

D. F. Archibald  
C. V. Brokaw III  
H. J. Egan  
J. W. Gillis  
D. H. Gilmour  
Z. A. Hahn  
S. W. Kenney  
J. C. MacKeen  
J. W. Mangels  
P. Munk  
F. H. Sobey  
R. M. Sutherland  
W. E. Thomson  
A. M. Vansittart

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Officers

P. Munk — President  
J. W. Mangels — Managing Director and Chief Executive Officer  
J. I. Laurie — Vice President, Finance and Assistant Secretary  
W. E. Thomson — Secretary  
J. F. Thompson — Vice President, Industrial Sales and Purchasing  
H. C. van Ierssel — Controller

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Auditors: McDonald, Currie & Co., Chartered Accountants, Toronto

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Transfer agents: Guaranty Trust Company of Canada, Toronto    Chemical Bank New York Trust Company, New York

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Legal counsel: Fasken & Calvin

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	January 5, 1968	January 6, 1967
Sales	\$17,620,706	\$15,453,053
(Loss) earnings before the undernoted items	( 5,523,671)	1,129,953
Depreciation	503,453	248,604
Interest (including interest on long-term liabilities of \$106,711 in 1968 and \$10,710 in 1967)	508,466	160,646
Amortization of financing costs (note 2)	126,927	57,701
	1,138,846	466,951
	( 6,662,517)	663,002
Provision for income taxes	—	61,651
(Loss) net earnings for the year (note 2)	( 6,662,517)	601,351

Consolidated statement of deficit for the year ended January 5, 1968

Retained earnings	Beginning of year	355,351	827,365
	(Loss) earnings for the year	( 6,662,517)	601,351
		( 6,307,166)	1,428,716
	Write-off of investment in shares of Canadian Motor Industries Holdings Limited	—	1,073,365
(Deficit) retained earnings End of year		( 6,307,166)	355,351

	Assets	January 5, 1968	January 6, 1967
Current assets	Cash	\$ 72,397	\$ 57,599
	Accounts receivable —		
	Trade (note 7)	4,499,949	5,977,876
	Government grants (note 3)	1,196,136	1,349,065
	Inventories at the lower of cost or net realizable value (notes 4 and 7)	5,406,395	5,866,958
	Prepaid expenses	23,627	298,157
		11,198,504	13,549,655
Fixed assets	(note 6)	4,725,883	5,006,525
Deferred charges and other assets	Special projects (note 2)	—	358,934
	Financing costs less amounts written off	534,926	482,592
	Canadian Motor Industries Holdings Limited (note 5)	86,667	216,667
	Other	46,041	22,406
		667,634	1,080,599
Goodwill	at nominal value	1	1

Auditors' report to the shareholders

We have examined the consolidated balance sheet of Clairtone Sound Corporation Limited and subsidiaries as at January 5, 1968 and the consolidated statements of earnings, deficit and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at January 5, 1968 and the consolidated results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change described in note 2 with which we concur.

McDonald, Currie & Co.  
Chartered Accountants  
March 11, 1968  
(March 18, 1968 with respect to Note 12)

	Liabilities	January 5, 1968	January 6, 1967
Current liabilities	Bank loans and overdrafts (note 7)	\$ 2,426,005	\$ 1,806,270
	Other loans payable (note 7)	525,129	835,132
	7½ % first mortgage bonds series D, payable on demand	2,000,000	—
	Demand loans payable to the preference shareholder	1,059,934	1,059,934
	Accounts payable and accrued liabilities	2,582,885	3,511,613
	Sales and other taxes	354,937	805,846
	Current instalments of long-term liabilities	547,025	41,497
		9,495,915	8,060,292
Long-term liabilities	(note 8)	9,335,489	7,173,283
Deferred income taxes		142,000	142,000
		18,973,404	15,375,575
Deficit less capital stock			
	(Deficit) retained earnings	( 6,307,166)	355,351
Capital stock (note 9)	Authorized — 3,000,000 cumulative redeemable first preference shares, par value \$1 each, issuable in series 2,000,000 common shares without par value		
	Issued and fully paid — 1,000,000 6¾ % cumulative redeemable first preference shares series A	1,000,000	1,000,000
	2,000,000 6¾ % cumulative redeemable first preference shares series B	2,000,000	2,000,000
	592,800 common shares	925,784	905,854
		3,925,784	3,905,854
		( 2,381,382)	4,261,205
		16,592,022	19,636,780

Signed on behalf of the board

Peter Munk Director

J. W. Mangels Director

		January 5, 1968	January 6, 1967
Source of funds	Net earnings for the year	—	\$ 601,351
	Add: Charges not requiring cash outlay —		
	Depreciation and amortization	—	306,305
	Deferred income taxes	—	12,000
		—	919,656
	6¾ % first mortgage bonds	—	1,500,000
	Proceeds from the sale of 5½ % convertible subordinated debentures	2,524,639	—
	Common shares	19,930	56,710
	Preference shares	—	3,000,000
	Sundry notes and mortgages	—	133,764
	Repayment by Canadian Motor Industries Holdings Limited	130,000	11,370
	Sale of fixed assets	30,320	—
		2,704,889	5,621,500
Use of funds	Loss for the year	6,662,517	—
	Less: Charges not requiring cash outlay —		
	Depreciation	( 503,453)	—
	Amortization of financing costs	( 126,927)	—
	Special projects written off	( 358,934)	—
	Loss on disposal of fixed assets	( 20,812)	—
		5,652,391	—
	Redemption or inclusion with current liabilities of long-term debt	541,694	541,497
	Additions to fixed assets	273,943	2,219,382
	Special projects, less write-offs	—	188,846
	Other	23,635	11,275
		6,491,663	2,961,000
	(Decrease) increase in working capital	(3,786,774)	2,660,500
Working capital	Beginning of year	5,489,363	2,828,863
Working capital	End of year	1,702,589	5,489,363



Notes to financial statements for the year ended January 5, 1968

1 Principles of consolidation

The financial statements include the accounts of all wholly-owned subsidiaries.

United States current assets and current liabilities have been converted to Canadian funds at the approximate January 5, 1968 rate of exchange. United States fixed assets and long-term liabilities have been converted to Canadian funds at the approximate rates in effect when they were acquired.

2 Change in method of accounting

The company has changed its method of accounting for certain costs. This change has resulted in the loss for the year being increased by \$313,013.

3 Government grants receivable

Of the \$1,196,136 receivable at January 5, 1968, \$1,178,000 is subject to government audit. It is expected that the audit will be completed in the current year. Proceeds will be applied to reduce the demand loans payable to the preference shareholder.

4 Inventories

These comprise:

	January 5, 1968 \$	January 6, 1967 \$
Finished goods	2,513,048	3,119,993
Raw materials and work in process	2,893,347	2,746,965
	<b>5,406,395</b>	<b>5,866,958</b>

5 Canadian Motor Industries Holdings Limited

The investment in Canadian Motor Industries Holdings Limited (CMI), which until April 7, 1966 was a partly-owned subsidiary, comprises:

	January 5, 1968 \$	January 6, 1967 \$
251,000 common shares (of a total of 1,402,500 shares outstanding after giving effect to the conversion as described below) — at nominal value	1	1
Advances (repayment guaranteed)	86,666	216,666
	<b>86,667</b>	<b>216,667</b>

Mitsui and Company (Canada) Limited, a shareholder of CMI, held a promissory note of \$1,000,000 from CMI. Subsequent to January 5, 1968, this note was converted by Mitsui into 910,000 common shares and 20,000 preference shares of CMI.

The Company deposited its 251,000 common shares into a voting trust pursuant to a voting trust agreement dated April 7, 1966. Under the terms of this agreement, the voting trustees, who are nominees of Mitsui, have had full voting control to elect the board of directors of CMI. Now that Mitsui has converted the \$1,000,000 promissory note to shares, the voting trust agreement has terminated and the 251,000 shares are to be returned to the Company.

6 Fixed assets

The fixed assets are valued at cost less accumulated depreciation and comprise:

	January 5, 1968			January 6, 1967 \$
	Cost \$	Accumulated depreciation \$	Net \$	
Land	16,316	—	16,316	17,938
Buildings	2,496,309	216,090	2,280,219	2,251,516
Equipment and furniture	3,083,664	808,875	2,274,789	2,588,131
Leasehold improvements	236,167	81,608	154,559	148,940
	<b>5,832,456</b>	<b>1,106,573</b>	<b>4,725,883</b>	<b>5,006,525</b>

7 Security for bank and other loans

Canadian trade accounts receivable of \$2,725,918 and Canadian inventories of \$4,750,965 have been pledged as security for bank loans and overdrafts of \$2,426,005. United States accounts receivable of \$1,774,031 and United States inventories of \$655,430 have been pledged for loans payable of \$525,129.

8 Long-term liabilities

These comprise:

	January 5, 1968 \$	January 6, 1967 \$
6¾% first mortgage bonds Series A, maturing July 1, 1980 with sinking fund payments of \$500,000 in 1968, \$213,000 in 1969 and increasing annually to \$409,000 in 1979, interest to accrue from July 1, 1968	4,250,000	4,250,000
6¾% first mortgage bonds Series C, maturing July 1, 1985 with sinking fund payments of \$474,000 in 1981 and thereafter increasing annually to \$576,000 in 1984, interest to accrue from July 1, 1968	2,695,000	2,695,000
5½% convertible subordinated debentures, due May 1, 1982, annual sinking fund payments to commence in 1972 at 10% of principal outstanding on May 1, 1971 (\$2,500,000 U.S.)	2,703,900	—
5% first mortgage bonds, maturing as to \$8,909 principal amount on the first day of January in each of the years 1968 through 1971 inclusive, and the balance on January 1, 1972	128,857	136,016
Sundry notes and mortgage	104,757	133,764
	<b>9,882,514</b>	<b>7,214,780</b>
Less: Included with current liabilities	547,025	41,497
	<b>9,335,489</b>	<b>7,173,283</b>

Notes to financial statements for the year ended January 5, 1968 (continued)

9 Capital stock

During the year the company received supplementary letters patent to re-divide the 100,000 6¾% cumulative redeemable first preference shares Series A and the 200,000 6¾% cumulative redeemable first preference shares Series B into 1,000,000 and 2,000,000 preference shares of \$1 par value respectively.

These preference shares are redeemable at premiums of up to 20%, depending on when redemption takes place. Each share carries one vote. Dividends begin accruing from January 1, 1969, and specified sums must be set aside for redemption or purchase for cancellation in each year commencing January 1, 1971 until January 1, 1985.

During the year the company received supplementary letters patent increasing the authorized common shares without par value to 2,000,000 common shares.

399,608 common shares were reserved for the following purposes:

50,000 for issue upon the exercise of share purchase warrants which accompanied the first preference shares entitling the holder thereof to purchase common shares for \$7.50 a share to June 30, 1969; \$10.00 a share thereafter to June 30, 1971; \$12.50 a share thereafter to June 30, 1976.

99,900 for issue upon the exercise of share purchase warrants which accompanied the 6¾% sinking fund debentures (which debentures were redeemed in 1964) entitling the holder thereof to purchase shares at \$6.50 per share on or before September 15, 1970.

192,308 for issue upon the exercise of conversion rights which accompanied the 5½% convertible subordinated debentures entitling the holder to convert on or before the redemption date, if called, or May 1, 1982 into fully paid and non-assessable common shares at the conversion price of \$13.00 U.S. (subject to adjustment under certain conditions).

58,400 for options to officers and employees of which options have been granted on 50,900 shares at the following prices:

No. of shares	Option price	Expiry date
900	\$5.40	February 28, 1968
50,000	6.50	February 28, 1968

These options were not exercised by February 28, 1968 and have therefore expired.

During the year, 3,200 common shares were issued under option arrangements for \$19,930 cash.

So long as any of the preference shares are outstanding, no cash dividends may be paid on any shares ranking junior thereto. The trust deed relating to the first mortgage bonds also restricts the payment of dividends.

10 Long-term leases

Rentals under lease agreements which extend more than five years from January 5, 1968 aggregate approximately:

	\$
1968-1972	388,200
1973-1977	210,000
1978	17,500

Rental expense relating to the above leases for the year ended January 5, 1968 was \$89,500.

11 Remuneration of directors and senior officers  
Remuneration for the year ended January 5, 1968 was \$245,706.

12 Contingent liability

On March 18, 1968 an action was commenced by a former employee of the Company claiming damages of \$200,000 alleged to have arisen as a result of his discharge. The Company intends to contest the claim and has not provided for the loss, if any, which may result from it.